ART. II. — *The Ways and Means of Payment: a full Analysis of the Credit System, with its various Modes of Adjustment.* By STEPHEN COLWELL. Philadelphia: J. B. Lippincott & Co. 1859. 8vo. pp. xii. and 644.

NOTWITHSTANDING the vast labor and ingenuity expended by men of all classes — of a practical as well as philosophical turn of mind — upon the "Currency Question," the principles which are involved in it, whatever they may be, are still to be considered, according to one of the latest writers upon the subject, as "desiderata," and as matters about which inquiry has not by any means been exhausted. It is indeed natural to suppose, that a series of phenomena, the formulæ of which are handled by almost every one in his daily transactions, and recognized as bases for the most extensive and important operations, would be understood as things of course, about which elucidation must be entirely wasted; but that the essential elements of the currency are not fully comprehended even by those most familiar with its use, is sufficiently apparent from a survey of the peculiarly empirical views promulgated of late in various quarters.

Nor are these views confined to those among whom we should not be at all surprised to find them. After exhausting all the very extensive means of inquiry in the possession of her Majesty's government, Sir Robert Peel procured the passage of the famous Currency Act of 1844 (embracing the Bank of England), which has been denounced in the most unequivocal terms by those to whom we now look as correct expounders of the system; and one of the most remarkable disputes upon record, in which were engaged, without bringing the point to a settlement, such men as Francis Horner and William Huskisson, to say nothing of many others of the highest eminence as men of business in the great commercial centre of London, was the celebrated controversy whether, during the twenty-five years' suspension of the Bank of England, a depreciation had taken place in gold, or in the bank's own notes.

While such is the latent uncertainty and the peculiar lia-

bility to error in the discussion of this class of questions, and while the principles on which they depend are still open to debate, we may welcome every new contribution, which we are certain has been, like the book before us, the result of careful and unwearied investigation.

"It is taken for granted," says our author in his Introduction, "that whilst there are so many conflicting opinions on the subject of money, currency, banking, and credit, — that whilst both theory and practice remain in doubt and dispute, and no authority high enough to settle those differences has yet appeared, — there is room for the labors of those who may wish to furnish materials for the final adjustment of many vexed questions."

The first broad principle to be understood in any theory of the currency, is the entire separation of Money from Credit, whatever form credit may bear, whether that of bank-notes, promissory notes, bills of exchange, or any other kind of transferable obligation; and it must also be understood, that the use of money causes no change in the relative exchange value of commodities *inter se*. There has been adopted in all civilized nations what we may term a nomenclature in respect of money, in which accounts are kept and prices stated. In the United States this nomenclature is dollars and cents; in England, pounds, shillings, and pence; and in France, francs and centimes. This is the money of account. When we write or say that the price of a commodity is fifty dollars, we convey a perfectly intelligible idea; and if this commodity can be exchanged for fifty dollars in the market, its price and its value are synonymous. But it may be asked, How have we arrived at the knowledge that fifty dollars is the value of this thing? In saying that it is worth fifty dollars, we have not taken into consideration the weight or quantity of coined gold that is contained in fifty dollars. If the commodity is a manufactured product, its value is calculated at so many dollars for the raw material, so many dollars for the labor, so many for the use of the machinery, and so many for the market rate of profit; which sums together make up the fifty dollars. Now, as we have said, the quantity or weight of gold has not entered into the calculation at all; we make use merely of the nomenclature, — the money of account. How, then, do we

know that the dollars which we have paid for the raw material and the labor, and have calculated for the other factors of the value, are in reality equivalents for them, so that their aggregate is the equivalent for the finished commodity? There is no way to determine this question on just grounds, but by a return to first principles.

Let us suppose a community in which there is no medium to effect exchanges, no generally recognized nomenclature like a money of account to express prices and values. Under this condition of things, a man can arrive at no idea of the value of commodities in exchange, except by a comparison of the relative amounts of labor it has taken to produce any number of different commodities. But as this process would be found very tedious, and would need to be renewed on different data with every new exchange, it would be manifestly of advantage if some commodity could be introduced, of a value as nearly as possible permanent, with which *all* other commodities could be compared, and therefore compared with one another. Then, if a certain portion of this commodity cost ten days' labor, all other commodities which cost ten days' labor would be exchanged for it, all commodities which cost one day's labor would be exchanged for one tenth of it, and so on; and as this commodity might be assumed to be generally acceptable, by taking it in exchange for commodities in hand, other articles of desire could readily be procured by means of it. But suppose that, instead of speaking of definite quantities of this commodity, and continually comparing other articles with those quantities, a central authority, on which all were willing to depend, should divide this commodity into convenient parts, and invest each of those parts with a name; it would then be necessary, in case an article were worth the quantity contained in one of those parts, to say that it was worth the name of that part; and where there was a general consent to express values in the same nomenclature, it would become a general habit to refer value to those names, without any mental reference to the quantities or intrinsic value of the things for which they stood.

We have thus arrived at a distinction between the nomenclature of money — the money of account — and the material

of money. When this nomenclature has come into general use, relative values may be expressed in it to any amount whatsoever, by means of the numerals 1, 2, 3, 4, etc., as we express in algebra relative values by $1\,x$, $2\,x$, $3\,x$, etc., without any reference to the intrinsic value of x.

If there were no generally recognized authority for coinage, there would still exist the same necessity for a nomenclature to keep accounts and express prices. In this case the nomenclature might be, as well as in the other, dollars and cents, provided it were generally understood that the dollar of account was the representative of $23\frac{1}{5}$ grains of fine gold. But it would then be necessary to weigh or assay whatever coins might be in circulation, to ascertain what portion of them, or how many of them, contained $23\frac{1}{5}$ grains of fine gold. A money of account would be as efficient under these conditions as under a fixed and certain process of coinage; for whatever coins were in circulation would soon come themselves to be expressed in the money of account, as so many dollars or parts of a dollar, and relative values of commodities would be equally well understood, even though there were, in point of fact, no such coin in existence as the dollar, containing $23\frac{1}{5}$ grains of fine gold.

Such, we apprehend, is the idea which our author means to convey of the money of account, to the elucidation of which he has devoted about seventy pages of his book; but while considering this point, we have been perplexed with the inquiry whether it is, in point of fact, worthy of so much attention, — whether the theory of the currency is at all illumined thereby, excepting so far as it was merely necessary to state the fact, — and whether the laborious reasoning of this treatise is anything more than a mere logomachy expended upon a subject intrinsically trivial; and we have been compelled to conclude that the writer has followed the idea to conclusions which it does not justify, and has given it altogether too prominent a place. He says: "The credit system could not exist for a day, but by the aid of a money of account. It can dispense with the use of the precious metals to a very great extent; but it cannot operate at all but through the agency of a money of account." This is undoubtedly true, — as true as

that expression of ideas could not go on for a day without a language in which to express them. They are both truisms, and need no more than a simple statement in order to be understood. But when our author says, in the very next sentence to the above extract, "During the suspension of specie payments in Great Britain, between 1797 and 1822, the entire payments of the country, in all transactions above the merest retail trade, were made under the operation and by the devices of the credit system," — this is not an argument *ad rem* at all, nor does it follow from any previous reasoning with regard to a money of account; it is merely the statement of the phenomenon of business being carried on by an inconvertible currency, which currency was expressed in the commercial nomenclature, — the money of account. We shall have occasion to refer to this historical fact more fully hereafter. But it is proper to remark in this place, that in the passage quoted the fundamental distinction between a convertible and an inconvertible currency is made to depend upon the idea of money of account, when in fact there is no such dependence whatever in any tangible form; money of account being merely an expression of money, and the distinction between it and money being as well marked as that between language and ideas.

Our author next occupies himself with a consideration of the use of gold and silver as money, apart from the use of credit substitutes. Gold and silver are the equivalents of the commodities for which they may be exchanged; and they are so because of their intrinsic value, and not because they are made into coins. Coinage is the mere agency introduced, to obviate the trouble of weighing the gold and silver at each transaction. It does not invest those commodities with any additional value; it is simply the means by which they are made to pass the more readily from hand to hand, and to conduct the greater number of transactions. In this connection we cannot avoid calling attention to a manifest desideratum which in the progress of political improvement will perhaps be accomplished, — the adoption of a universal system of coinage. Some such measure seems to be the necessary complement of the idea of coinage. The relations of the commercial world

seem at this time to favor in a peculiarly fortunate degree such a step; commerce binds the nations together in an almost indissoluble union, and the rapidity of communication brings them as near to one another as the different provinces of the same country. A congress for the universal regulation of currency would be an act only in perfect keeping with the singular progression in utilitarian enterprises of the nineteenth century. The extraordinary confusion which may be produced by a multiplicity of mints is happily depicted in the volume before us.

"Germany alone had sixty-eight mints, each with its separate coinage and regulations. When all the gold and silver coins, with their subdivisions from sixty-eight mints, were circulating over a territory no larger than Germany, it can readily be conceived what a nuisance this variety became in business. But when this nuisance was enhanced by a due proportion of counterfeits, by the abrasion, clipping, and other deterioration of coins, it can scarcely be imagined how intolerable the burden became. The complaint was loud and bitter, and projects for reform abounded; a system to be uniform not only throughout Germany, but Europe, was earnestly demanded. The same evil induced the establishment of banks of deposit in Holland.

"In urging upon the public his proposal of a convention of delegates from the various governments of Europe, to devise a uniform mode and system of coinage, Scaruffi placed before his readers the whole mischief in bold relief. The director of the mint in Reggio, however, could not move the authorities of that day by his logic, nor by his position; and he lacked the power which Napoleon applied to the subject more than two centuries after, when he introduced a uniform coinage into Italy. No sooner had the power of the French Emperor ceased to be felt in Italy, however, than the Pope, and other princes, commenced the old system of multifarious coinage, the evils of which are now seriously felt: 'Dont la diversité embarrasse tous les jours, non seulement les étrangers et les voyageurs mais même les banquiers et marchands Italiens.'" — p. 106, *note*.

There has been a great deal of unnecessary contention among economists with regard to the attributes of money as a measure and standard of value, and many objections have been forcibly urged against the ascribing of such properties to money. Gold and silver, like all other commodities, vary in their value according to the abundance or scarcity with which

they are produced; it is therefore represented as absurd to consider them as measures or standards of value, the idea of which terms must necessarily be connected with something invariable. Moreover, in commercial transactions money is bought with commodities, in the same way in which commodities are bought with money; money therefore is not a measure of other commodities any more than they are a measure of money. Such arguments as these against the employment of the expressions alluded to are strongly dwelt upon by our author. He says:—

"The precious metals are in no proper sense a *measure of value;* they are simply a convenient equivalent, being of very great value in small compass, susceptible of being brought to uniform quality, and of being subdivided into pieces or coins of any required weight."—p. 124.

Again:—

"Another attribute frequently given to the precious metals is, that they are a *standard of value*. This is equally inaccurate. There may be a common equivalent,—an article that is commonly given in exchange for other articles; but there can be no standard of the value of all articles of merchandise. Every commodity may have its standard of quality,—a certain grade being assumed, with which all other specimens are to be compared; but no article can be assumed or regarded as a standard for other things of a totally different kind. Gold cannot, in the mint, be made the standard for silver; nor can silver be made the standard for gold. Much less, taking the whole range of articles of human consumption, can there be any standard of value or price to which all can be referred, or with which all can be compared."—p. 125.

Let us examine for a moment the assertion that "the precious metals are *in no proper sense* a measure of value." In connection with this matter there are two points which we believe were first enunciated in a distinct form by John Stuart Mill; namely, that money, or the precious metals, must be a measure of commodities at the *same* time and place; and that they must be a measure at *different* times and places, if we are provided with the necessary data. That the precious metals are a measure of commodities at the same time and place, may very easily be shown; for they must at any one time possess the same value relatively to one commodity that they do to all,

as they do not fluctuate in value from day to day, like other commodities, but their fluctuations are extended over long periods of time, and are not visible at one given moment. In this sense, therefore, money is not merely a relative, but a positive measure. The object to be attained, however, with regard to the precious metals, is not to provide a positive measure, but data by which comparisons may be instituted between commodities; and in this relative sense they are a measure, not only at the same time and place, but at different times and places. To illustrate this principle Mr. Mill introduces the following example: —

"If wheat is now fifty shillings the quarter, and a fat sheep the same, and if in the time of Henry the Second wheat was twenty shillings and a sheep ten, we know that a quarter of wheat was then worth two sheep, and is now only worth one, and that the value therefore of a sheep, estimated in wheat, is twice as great as it was then; quite independently of the value of money at the two periods, either in relation to those two articles (in respect of which we suppose it to have fallen), or to other commodities, in respect to which we need not make any supposition."

Nearly the same course of reasoning, we apprehend, applies to the term *standard* of value. If the value of a horse, for instance, is a hundred dollars, and of a cow fifty dollars, by the standard of the United States, the fact that the horse has twice the value of the cow is not altered by any change that may take place in the standard. For if we suppose the standard to be depreciated one half, then by the same standard the horse will be of the value of two hundred dollars, and the cow of the value of one hundred dollars; their relative value being the same as before. We may further illustrate this principle as follows. Suppose that the length of one field is a hundred feet, and of another field fifty feet. If by some unaccountable means the foot, the unit of the measure of length, should become twice its former length, and if both fields were lengthened in the same proportion, the essentials of the case would remain the same. Now this is precisely the phenomenon with regard to the precious metals; with every expansion and contraction in their value, all other commodities expand and contract in a like proportion, and therefore preserve their relative value.

While, however, we contend for the principle, we do not affirm that the terms *measure* and *standard*, used in a positive sense, are the most appropriate terms that could be found to express the essential qualities involved in the principle. If the essentially relative character of the terms could be always kept before the mind, no harm would grow out of their use; but as it cannot be hoped that disputants will always preserve this qualification, some modification of terms may perhaps be desirable. Yet we cannot perceive that this desideratum would be obtained by calling the precious metals a "standard of payment," as our author suggests. The essentials of the case are not altered in our view, either in fact or in meaning, by this modification. Standard of payment is a totally different idea from standard of value. A standard of value, or whatever we may at last, in the progress of the science, conclude to call it, must be a valuable material; a standard of payment may not be a material at all, it may be merely an inconvertible currency.

We are aware that all the arguments we have cited would be referred by our author to "the want of attention to the functions of a money of account." But we have seen that the money of account is not a thing, but a nomenclature; or rather a formula which conforms to the conditions of things, and not the things to it; and if the money of account is merely a formula to facilitate, or to exhibit in a universally understood form, the relations of commodities, it has no bearing whatever upon those relations themselves.

Money is also spoken of as a medium of exchange. But if we survey the actual course of commercial operations, we shall find that there are perhaps ninety-five exchanges which take place without money *in esse* being used at all, to five in which it is so used. It is only in retail transactions,— or, as it has been expressed in a scientific formula, the expenditure of incomes,— that gold and silver are used as a medium. In all wholesale business the balances of many series of transactions are paid in gold and silver; for the separate transactions no money passes, but merely securities in the shape of checks or the larger denominations of banknotes, which, being drawn on or from one bank, immediately

form the *materiel* of deposits in some other. Under the Clearing-House system, transactions amounting to many millions daily are cancelled by the final payment of not more than five per cent of gold.

The theory of our author with regard to the use of the precious metals as a medium is, that where they are not absolutely employed in exchange they are of no utility. "Whatever indefinite ideas some may entertain upon this subject," he says, "the real use of coins [gold and silver] is merely that in which we see them employed. Though every man may exact payment in coins of all that is due to him, yet this is almost never done. When not so exacted, the payment is made in some other satisfactory way." He believes that, in all those transactions into which money does not enter, commodity directly pays for commodity, not through the medium of money, but of the expedients of the credit system; that the *measure*, or whatever it may be called, which serves to make the extent of these transactions apparent, is the money of account, without any reference to gold and silver; that, inasmuch as the whole of the vast business of England, including the payment and receipt of the revenue, was carried on for twenty-five years with an inconvertible currency, this is *prima facie* evidence that a currency may be so regulated as to dispense entirely in large transactions with the use of gold and silver as a centre of oscillation, and that by the proper adjustment of the credit system this end may be in effect accomplished.

But without taking any prospective view of the case, and confining ourselves to present conditions, if the class of transactions under consideration — that is, exchanges where gold and silver do not pass at every step — take place without money *in esse*, they do not take place without money to which each of the exchanging parties has a right, if he should choose to assert it; and if there were any detriment of the parties from the use of the economical expedients, as they are called, that is, if the expedients did not transact the business as satisfactorily as it could be transacted by money, the money would be demanded and used. But if any one can buy the same amount of commodities, and on the same terms, with a bank-

note or a check, that he could buy with the same amount of metallic money, he will not take the trouble of drawing the metallic money. Therefore, where confidence is so exerted as to invest these expedients with the full force and effect of gold and silver, their use, as being more convenient, and more conducive to commercial activity, will prevail. While, therefore, money is not, in the strict sense of the term, the medium of exchange in wholesale transactions, it is undoubtedly the basis upon which all those transactions are conducted, and without which, or some generally acknowledged security equivalent to it, the economical substitutes might be multiplied to an extent utterly subversive of the healthy condition of the commercial community, as was witnessed in the Continental money of the United Colonies of North America, and in the assignats of France.

With regard to the idea that commodity is exchanged for commodity more directly under the system which obtains in the wholesale trade than in the retail trade, we have only to say, that commodity virtually pays for commodity, even where the medium is entirely gold and silver, and certainly where the medium in the retail trade is bank-notes. The difference between the two classes of transactions is only one of form. In the process of clearing, we see a series of receipts ranged on one hand, and of payments on the other, and instead of gold and silver passing to and fro, at each receipt and payment, it passes only once, when an ultimate balance between these receipts and payments is struck. The ownership of the gold and silver is continually transferred by a written instrument, until it finally rests with the merchant or the banker, who has no corresponding debt to cancel with it. Now if we could imagine the gold and silver absolutely passing from one to another at each of the transfers, although the process would be infinitely more cumbrous, it would be the same in principle: it is the knowledge that the gold and silver can be eventually procured, that gives to these transactions their whole efficacy; and if at any stage any instrument should be found among the rest which had no claim to the gold and silver, it would not be able to make a transfer; and if any banking institution should not be able to pay the ultimate balance in gold and silver, this

would be equivalent to bankruptcy. These principles are sufficient to show that, under the present system, there is a prospective use of gold and silver besides that in which we see them immediately employed. They are like the fortifications of a city, which in a time of peace seem utterly useless, yet in a state of siege may be the only means of safety.

But leaving out of view all other and minor considerations, a monetary system in which gold and silver are not the base of transactions amounts in point of fact to an inconvertible currency. Now an inconvertible currency may be as effective as a convertible one, provided it is kept under the same restraint. In any community where bank-notes and gold and silver circulate alongside of each other, the bank-notes are as effectual for all exchanges as gold and silver; and would be as effectual even in a state of inconvertibility, provided they were a substitution for a part, and not an addition to the whole of the currency. Thus suppose the circulation of a country were ordinarily a hundred million dollars, half of which was in bank-notes, and half metallic; if one half of the metallic currency were replaced by bank-notes, and the bank-notes varied the same as the metallic currency would do, — that is, were never in excess, — such issues would be as effectual, and as little liable to fluctuation, as the metallic money. But without the check of convertibility, here lies the peril. The temptation to issue such a currency is too strong to be resisted.

The value of every commodity depends temporarily upon the quantity offered for sale. If more is offered than can find buyers, it must inevitably fall in salable value. Now, inasmuch as money in every transaction is as truly bought with the thing for which it is exchanged, as that thing is bought with the money, an order of events may come about by which there may be too much money offered for sale, or for exchange, as well as too much of anything else. But when money is gold and silver, if too much is offered, so as to reduce its exchange value, the surplus will very quickly retire from the market; that is, will be exported to another country, where it has a greater power of purchase. What is true of gold and silver is true also of an inconvertible

currency, where it is the sole currency, and is possessed at its first issue of a factitious or a conventional value. Its actual value will depend on the quantity of the inconvertible paper in the market seeking to be sold, or, what is the same thing, seeking to buy commodities, — with this difference, that in the case of gold and silver, if the quantity is in excess, the surplus quickly retires from circulation by well-known processes, while with the inconvertible currency there is no such provision to restore an equilibrium; what is once issued must stay there, and the excessive quantity will cause a depreciation of the whole. In the commonly used formula an inconvertible currency has no regulator of its value but its quantity; and where there is not the continual convertible check, such a currency is always liable to be depreciated by excess. If it be held that the inconvertible notes of the Bank of England from 1797 to 1822 are a striking refutation of this argument, we can perhaps best reply in the language of one who was a witness of the actual operation of that financial measure, and was possessed of a knowledge and judgment capable of seeing through its evils in the midst of all its apparent success. We allude to Mr. Fullarton, from whose work on the Regulation of Currencies, called forth by the agitation in relation to the Currency Act of 1844, the following extract is taken.

"There is not, I believe, a single example on record, of the power of creating money out of cheap materials having been exercised by a sovereign state for any length of time, or through any season of public difficulty, without having been abused. So long as the whole supplies of the year are raised by means of taxes and loans, no great mischief can befall; for the paper which the state issues in its payments will, in that case, all flow back again regularly in the shape of loans and taxes, and there will be no surplus left to accumulate in the hands of the public. But say, that the nation is once embarked in a destructive and expensive war, with little prospect of bringing it soon to a termination, — that the revenues are failing, the government at its wits' end to discover some new tax that will supply the deficiency, and the impatience of such exactions on the part of the people already at its height, — the temptation to substitute issues for taxation, to relieve the wants of the treasury, by intercepting, through the depreciation of the currency, a portion of every payment in its

transit from the pocket of the debtor to that of his creditor, becomes too strong to be resisted, and the iniquity is, probably, perpetrated with the general acquiescence of a community, who are scarcely aware of its tendency. The career of debasement once entered upon, it has no pause till there is scarcely any value left to be destroyed. And if, in this country, the portentous experiment of the suspension of cash payments was not followed by the same disastrous consequences which attended the issues of the Mississippi notes and the assignats in France, and of the several paper currencies put forth by the principal states of Northern Europe, it was because the inconvertible notes were disbursed, not in the *payments* of a government, but in the *loans* of a bank; because the vast resources of the nation enabled the government, to the last, to raise all its supplies either by taxes or by loan; and because, whether the Bank of England advanced its funds to government or to individuals, no impediment ever arose to the punctual return of those funds into its coffers. Much credit has been claimed for the moderation and self-denial with which the directors of the bank exercised the very extraordinary powers intrusted to them, and to which are attributed the very different results of their administration of a currency of inconvertible paper from those which have attended all similar enterprises, — nor have I any wish to detract from that credit; but the truth is, that the bank was fenced round and protected by the peculiarities of its own constitution, and by the whole financial system of the state, — a fortuitous and fortunate combination of precautions, which nearly precluded the possibility of its committing any great error, however it might have been inclined, and without which all the moderation and self-denial of its directors might have been exerted in vain."

Under the most favorable aspect of the case, we must conclude, therefore, that, without a basis of gold and silver, the safety of commercial operations is placed in imminent peril, and that the speculative views which Mr. Colwell has advanced with regard to commercial transactions as capable of being carried on as effectually without as with a metallic basis, through the medium of credit, are applicable (and are no doubt so intended by him) to an order of events and a perfection of exchanges which has not as yet been reached. When a principle of limitation shall have been discovered equivalent in its operation to the check provided by a metallic basis, such speculations may be realized.

We have followed thus far our author's reasoning with regard to a money of account, a measure and standard of value, and some phenomena arising from the use of the precious metals in commercial transactions; but we have not yet inquired into the nature of the economical expedients to which the credit system has given rise. Metallic money is an expensive agent, which is used only when some economical expedient cannot be used as well, and exchanges are effected and operations carried on as effectually by the use of those expedients as by the money itself. But it is important, before advancing any further, that we should mark the radical distinction between money and these credit substitutes for money. Money is either gold and silver, or inconvertible paper possessed of a conventional value. Neither bank-notes, promissory notes, bills of exchange, nor any other circulating medium, come up to the designation of money. They are merely substitutes, some of them very effectual ones, it is true, but still mere tickets for the payment of money at a future time.

The "currency theorists," as they were called in the great controversies to which their peculiar views gave rise, and who in 1844, with Colonel Torrens, Mr. Jones Loyd (now Lord Overstone), and Mr. Norman at their head, were instrumental in procuring the passage of the act of 1844, selected the bank-note from the mass of circulating obligations of the credit system as money *par excellence*, to the exclusion of all other credit instruments, and were led by that assumption into some extravagant theories respecting prices, which were most luminously refuted by Mr. Tooke and Mr. Fullarton. "You cannot," says Mr. Fullarton, in the work already quoted, "include the bank-note under the generic designation of money, without finding yourself immediately embarrassed by the claims of bills of exchange, bankers' checks, and a variety of other typifications of the same principle of credit, all of which being more or less competent to perform, and in point of fact performing, the functions of money, and some of them on a scale of vast extent, have *primâ facie* just the same pretensions to be rated as money which bank-notes have." This principle, however, leads more directly to theories concerning prices than to a consideration of the matter now before us, — the expedients made use of in the credit system.

It is obvious that a comprehensive view of the currency must embrace the distinction which exists between that used in the retail and that used in the wholesale trade. In the former, gold and silver, and the *permanent* circulation of banks, serve to carry on the operations, while in the latter the principal part of the exchanges is effected by checks against deposits, or the transient circulation; that is, the larger denomination of bills, which return through other banks almost as soon as they are issued. According to Mr. Tooke, in his Inquiry into the Currency Principle, the former is merely the currency by which individual *incomes*, including wages, are distributed; and the latter, the currency by which actual *capital* is passed from hand to hand. The incomes of the community require a certain amount of gold and silver and small bank-notes in circulation all the time, because there is each day a portion of income to be expended; while the transfers of capital are made from the hands of one merchant to another. The profit arising from this transfer, or the portion of the profit that the merchant reserves for expenditure, forms income; but the transfer of the merchandise, which is capital, by wholesale, is merely changing it from one warehouse to another, and the checks and the large bank-notes which serve to make these transfers are the currency of this description of trade.

When notes are drawn from a bank, it depends upon the use to which they are put whether they remain in circulation, or immediately return. If they are drawn to be expended as income, that is, for personal expenditure, or to be paid away as wages, they will remain in circulation; that is to say, although they return, after having permeated the retail trade, they will be immediately replaced by others. If a manufacturer, for instance, pays away a thousand dollars in bank-notes, in one week, for wages, although these notes will in the course of the next week find their way back to the bank, they will be replaced by others to pay another week's wages. The same remark holds good as to the expenditure of incomes. It is only in these classes of transactions that a bank can obtain a permanent circulation. For if we suppose a sum to be drawn from a bank, or a check passed in payment of a trans-

action between merchants, it will immediately form part of the *materiel* of the deposit of the person to whom it was paid, and will return to the bank from which it was drawn in the next day's clearing operations. The circulation, or the means of payment in the wholesale trade, is therefore made up of the bank balances or the deposits of individual merchants; and the banks are the channels by which, when these balances become mobilized, they are collected in the reservoir of the Clearing-House, and thence again distributed to their respective and final destinations.

It is plain, therefore, that unless the bank use forced or illegitimate means to get its circulation out, that circulation must be limited to the extent of the individual incomes of the community. An increase of individual incomes thus implies an increase of circulation, and *vice versâ*, the circulation being in all cases the effect, and not the cause. A rise of prices, from any course of events whatsoever, is an efficient cause of an increase of the expenditure of incomes, and thence of an increase of bank circulation. And because an increase of bank circulation has generally been seen to accompany any long-sustained general rise of prices, it has been held, by a certain class of reasoners, to be a cause of such a rise, whereas it is only an effect; the rise of prices being generally occasioned by elements of an entirely different character, such as the state of credit in commercial circles, and the existing relations of supply and demand.

We have already intimated that the fund used for carrying on the wholesale operations of trade consists mainly of the balances in bank to the credit of individual merchants. On any given day the currency of the wholesale trade will be that part of these aggregate balances which is set in motion. If on any morning the banks hold deposits amounting to fifty millions, and checks are drawn during the day for twenty-five millions, the currency of the wholesale trade for that day's operations will be twenty-five millions, while the whole fifty millions possess the property of *mobilization*. Without confining ourselves, however, to any specified time, we may extend this principle, and say that the currency of the wholesale trade consists of the whole of the circulating capital of indi-

viduals; for the whole of that circulating capital becomes in time resolved into bank deposits, whether it consist of bills receivable, bills of exchange, drafts, or merchandise; and the nature of the case demands that these deposits shall not remain idle, but shall become transformed again into bills receivable, bills of exchange, drafts, or merchandise, through the medium of deposits. If the circulating capital of a merchant consists of fifty thousand dollars, by the time that the whole of it circulates once, and returns to him again, his aggregate deposits will have been equal (excepting of course all usual allowances) during that time to fifty thousand dollars; but as he lays it out again as fast as it returns to him, by drawing checks against his deposits, either to pay directly for merchandise or to cancel his bills payable drawn for merchandise, the whole of this sum resolves itself in time into the currency of the wholesale trade; and what is true of one individual must be true of the mercantile community.

We have been thus particular in illustrating the nature of wholesale operations, in order to exhibit in a clear light our author's exposition of the credit system.

"Credit, in no one of its meanings," he writes, "is the same thing as the credit system; the latter implies the former, but the former does not include the latter. Credit refers chiefly to the confidence which dealers repose in each other, and to the consequent postponement of payment upon transactions of sale. When one sells and delivers goods to another, agreeing to receive payment at a future day, that is giving credit upon one side, and taking it upon the other; but this transaction may not fall within the credit system, which imports something more than personal confidence and deferred payment. The credit system is that by which not only personal confidence exists between the parties, inducing them to sell and deliver goods, and defer the payment, but by which the payment is eventually effected without resort to coin, bullion, or any similar equivalent: it is that by which commodities or services are made to pay for commodities or services: it is a system by which men apply their credits to the extinguishment of their debts. It embraces all the devices by which payments are properly made, without the use of the precious metals, except cases of strict barter.

"Under the credit system, no equivalent is given at the time of sale, the payment being postponed for a time definite or indefinite; the payments for commodities are separated from the actual transactions of

sale and purchase; the articles of trade are bought and sold, and distributed for consumption at home and abroad, — the payments accruing being reserved for a separate and a distinct department of commerce.

"This is in direct contrast with the cash or money system, in which every article is either paid for in the precious metals at the time of delivery, or at some time afterwards. These two systems work side by side; and though frequently much blended in operation, the distinction between them is plain enough to be always kept in view. It must, indeed, be strictly regarded by those who would understand the subject of money and credit." — pp. 188, 189.

Under a strict and general view of the subject, it does seem in fact that there is some such distinction of functions as is here stated between the operations of purchase and the operations of payment. The former process is conducted by the merchants, while the latter — payment, or rather we should say the process of set-off, to distinguish it from the mere act of payment — is carried on immediately by the banks or bankers, and ultimately by the Clearing-House. A merchant will pass away a considerable number of checks in one day, and he will perhaps receive as many, — the bank-notes used in this class of transactions being, *mutatis mutandis*, equivalent to checks, as they do not remain permanently in circulation. Those that he receives he deposits to his credit in bank; those that he gives are deposited by the parties receiving them. In the clearing-house, the next day, one class is confronted with the other; those checks which he has given away appear against his deposit, and those which have formed his own deposit appear against others who have drawn them. But this process is a matter carried on entirely by the clerks of the different banks; the merchant has nothing to do with it, — does not see it, — but is nevertheless positively certain that it is done, and that such checks as he has given have actually been debited to his account in the bank in which he deposits.

A process so regular and efficient as this, and yet so simple that all the extensive transactions of the day previous may be set off against one another in one or two hours' time at the Clearing-House the next morning, and without the use generally of more than about five per cent of gold, cannot fail to

strike us as a beautiful example of the precision with which the elements of the credit system coincide; and we are moreover, from a comprehensive view of the matter, irresistibly led to the conclusion, that the circulating capital of the community is made to cancel debits and credits without the use of money, excepting in a prospective sense, for the payment of balances; that, in the language of our author, the credit system is "that by which commodities or services are made to pay for commodities or services," or "by which men apply their credits to the extinguishment of their debts."

Our views thus far have been confined to a statement of the action of principles in an undisturbed condition; but there is a very wide and extensive class of phenomena which transpire at periodical intervals, and which not only disturb the action of these principles, but for the time suspend them. Economists seem generally disposed to admit that, while the present system of currency is sufficient for the exchanges which are made, and highly beneficial in the ordinary course of events, it is powerless to prevent, nay, even heightens the intensity of what is called a commercial crisis. We shall exhibit in the words of our author the fearful effects of one of these convulsions.

"In the fatal panic of a hundred days, which occurred in the last quarter of 1857, vast numbers of men in business failed in the United States, and hundreds of millions were lost in the wreck of credit, in the depreciation of securities and of property, real and personal, besides hundreds of millions lost by the check to industry, the stoppage of business, and the cessation of labor. Millions of idle laborers lost millions of dollars daily. The loss in a panic of a hundred days is a fearful thing to contemplate in figures! How much more so the reality, if it could be brought at one glance under the eye! The grave of many vast fortunes, the gulf which has swallowed the competency of thousands, the comforts, the homes, the food and raiment of millions who toil with their own hands for their daily bread! . . . . .

"Our banks are so constituted, that when the ignorant and alarmed multitude commence a run for coins, they have no resource but to withdraw the usual facilities of banking from the very men of business to whose custom they owe every day's existence. When this race begins, the banks, whilst they are daily receiving, in their own notes and credits (checks on deposits), the sums payable to them, withhold the

customary facilities or discounts from their customers, and by this means create such a strong demand for bank-notes and credits for payment of debts, as checks their presentation for the specie. The stream of bank-notes and deposits sets steadily and strongly towards the banks, and returns to the public in a constantly decreasing volume. The demand of the banks upon the public may continue unabated for some sixty days, in which time, in a commercial community, the stringency may become such that few, if any, can have bank-notes or credits upon which to make demand for specie; and those who have will be tempted by the debtors to the banks to accept at the rate of twelve, eighteen, twenty, or thirty per cent per annum; and thus these bank-notes and bank credits will be returned to the banks in payment of debts, instead of being presented for payment in specie. The contraction in New York, in the panic of 1857, is a specimen of what the banks are constrained to do to save themselves. They can only protect their coffers by refusing to issue the usual supply of currency. The diminution of loans and deposits in the banks of New York stood thus in August and October, 1857: —

	Loans.	Deposits.
15th of August,	$ 121,241,472	$ 92,356,328
19th of September,	108,777,421	75,772,774
17th of October,	97,245,826	52,894,623

"This exhibits a reduction of discounts in one month of $ 13,000,000, and in the succeeding month of $ 11,000,000; that is, $ 24,000,000 in sixty days: in one month deposits ran down, under this operation, $ 17,000,000; in the succeeding month, $ 23,000,000; making in the two months a reduction in the chief medium of payment of $ 40,000,000. The deposits were thus reduced nearly one half. It cannot be surprising that, under such a process of contraction, interest went up to between fifteen and thirty-six per cent, and exchange down to nine or ten per cent below par. . . . . .

"The late panic has inflicted, in all its bearings and ramifications, a loss upon the country, which may be variously estimated from $500,000,000 to $1,000,000,000. No doubt the ill effects of the panic were much enhanced by the previous abuse of credit, and that a considerable portion of this devastation should be set down to that account. With every allowance in that respect, we shall have a vast sum of loss to charge to the panic; and whether this sum be $400,000,000 or $800,000,000 matters not to our view. The loss was to a great extent unnecessary, cruel, terrible, — a loss which has carried privation, distress, and ruin to a million of homes. For a time, at least, not yet passed, it reduced hundreds of thousands of the best people to a state of entire dependence, if not beggary." — pp. 483 – 486.

"What was the cause of these dire calamities?" pertinently asks our author. They were incurred, as he says, to save the specie in the banks from passing into the hands of the public, or from being remitted to foreign countries. If this be true, cannot a remedy be applied? Must we quietly sit down with folded hands, and await the advent of another panic, and a renewal of these manifold evils? Can no arm be put forth to save us, or is the intelligence of this whole people so hard to be moved, that it will not exert itself for good in a tangible, visible form? In our view the remedy is simple and obvious, although we have faint hope of seeing it speedily applied. We have said that the currency of the country divides itself into two well-marked and distinct portions; — that which is employed in the retail trade, in the expenditure of incomes and wages, without the use of credit; and that used in the wholesale trade, involving the transfer of circulating capital between merchants, which is conducted almost entirely upon credit. We would make each of these two descriptions of currency homogeneous. In the first class, no credit substitutes should be used, because the operations are mainly for cash; and in the second class, nothing but credit substitutes should be used, because the operations are mainly on credit. To prevent the use of credit substitutes, that is, bank-notes, in the retail trade, no notes should be issued under the denomination of twenty-five dollars. The banks would then be almost entirely deprived of their permanent circulation in the retail trade; for no notes would be drawn to pay wages, or for personal expenditure; but their use would be entirely confined to the wholesale trade. The channel of circulation for all sums under twenty-five dollars would be filled by metallic money, a state of things which would effectually prevent any popular panic, or run upon the banks by the ignorant masses. The circulation of the city banks forms but a very small part of their means of profit, but it forms almost the whole of that of the country banks; the distinction between the city and country banks being, that the discounts of one are made upon the strength of deposits, and those of the other, upon circulation. If no notes under twenty-five dollars were issued, while such a course would affect the city banks very slightly, it would take

away from the country banks almost their whole power. If there were any country circulation, it would be confined to the dealings between the country and city merchants; no notes would be held by the people; and as this circumstance would cut off from the country banks a chief source of their profit, it would leave no inducement for their multiplication. It would, on the other hand, have a tendency to close some of those now existing, and to transfer the business of domestic exchanges into the hands of private bankers, with no power of issue.

With regard to the foreign exchanges, it may be said, that they form a peculiar class of operations, and should be treated on peculiar grounds. We imagine that the difficulties connected with this class of transactions are directly due to the *ad valorem* system of revenue. The substitution of specific for *ad valorem* duties, as suggested by President Buchanan in his message to the last Congress, would have gone far to remove the evils of the periodical efflux of bullion. It is extraordinary that our legislators should remain so blind to the pernicious effects of the present system. There is no merchant in any of the importing cities who could not name numerous instances of fraudulent invoices; and there can be no doubt that, under the existing system and rate of duties, the government is actually cheated of at least one third of its just dues. But even without the supposition of fraudulent invoices, the general establishment of foreign agencies is an evil of equal, if not greater moment. "The foreign manufacturer now sends here a clerk, or agent, or partner, who becomes forthwith an importing merchant. The goods to be imported are invoiced to him at cost, without any perjury, or other evasion of law. The goods are sold in our market for the highest price which can be obtained; and the whole proceeds, profits and all, less only the expenses of the agent, are remitted to the foreign concern in specie, or by bill, according to the state of the exchange." The amount of these profits, which would otherwise remain with ourselves, is the whole amount necessary to make an unfavorable balance, and to cause an efflux of bullion. So long as we are producers of gold, it must be expected that we shall be exporters of it to

some extent, and so long as that exportation is confined to gold as an article of merchandise, no harm will grow out of it; but when it extends itself to currency, when the importer withdraws coin or bullion from the banks to send over his own profits as well as the original value of the goods, the transaction is extra-mercantile and ruinous.

In conclusion, we would say a word concerning the moral lessons which commercial revulsions inculcate. There is no doubt that greediness of gain and wealth is an extensive source of evil in commercial circles. Men cannot be content with a trade proportioned to their capital, but extend their credit to a limit which it cannot under any circumstances bear. That merchants are in a state of absolute dependence upon banks, so that a suspension of their usual line of discounts produces ruin, is the strongest argument against banking institutions; and it may be fairly and forcibly urged, that so long as men will persist in trading beyond their own means through bank accommodations, no reform of the currency can be of any avail. In this view of the case, the preventive or remedy lies with each individual; and it consists in making the laws which regulate our moral relations paramount and supreme in our economical transactions.

ART. III. — *Poems*. By ANNE WHITNEY. New York: D. Appleton & Co. 1859. 12mo. pp. 191.

QUIETLY as a nun goes from cloister to grave, this little volume of last June has proceeded from the press to the shelf. The publishers did not give it their best style, the advertisement was limited, the criticism casual. But if some illuminator had passed his youth in emblazoning the margins with floral devices in lapis-lazuli, orpiment, and gilding, the reader, turning the lingering leaves, would have found their contents commensurate with his highest and finest moods. Forgetting that

"He who blows through bronze, may breathe through silver,"